Economic Conditions and Outlook

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The views herein are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Overview

- Inflation pressures continue to rotate toward services that are labor intensive
- Wage pressures remain elevated and labor markets remain tight in several consumer service sectors
- Business investment activities are declining, while consumption growth slowed to trend levels
- Banks expect to further tighten their credit standards over the medium term
Inflation remains elevated

Core PCE Inflation
Headline PCE Inflation

Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading
Housing prices and other labor-intensive services prices continue to exert outsized inflation pressures on core inflation.
Rent inflation for new leases has slowed, but lags in the reset of existing leases imply some further momentum in housing price pressures.
Demand imbalances in the accommodation sector are placing persistent pressure on prices for these non-housing services.
Across the U.S., labor market tightness more about demand than supply

Sources: BLS, Haver Analytics
In New Mexico, unrecovered labor force participation and elevated quits rates are sustaining upward pressure on wage growth.

Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading.
Also, hours worked in service sectors rose across the nation during the pandemic, but much less so in New Mexico.
The Federal Reserve raised interest rates rapidly over the past year, and projects that rates will likely remain elevated over the medium term.

Sources: Federal Reserve Board, Summary of Economic Projections, Haver Analytics
Overall economic activity is likely to slow this year.

The chart shows the percentage change in final sales to private domestic purchasers from 2007 to 2022. It includes both quarterly and annual growth rates. The chart indicates that overall economic activity has been slowing, with a particularly significant decline in 2020. The shaded areas represent recession periods, and the chart highlights that the economic activity was around 40% and 31% lower than the previous quarter in 2020.

Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading
Consumer spending growth slowed in recent months, reverting to its trend level of contribution to overall growth.
Consumer spending is returning to something akin to a new trend growth level, rebalanced between online and in-store locations.

Source: U.S. Census, Haver Analytics
Note: Grey bars indicate recession shading
Businesses’ purchases of materials, equipment and other capex spending are slowing
Slowing employment growth in technology occupations likely indicates that investment in intellectual property is also poised to slow.

Sources: BLS, BEA, Haver Analytics
An increased share of banks expect to further tighten their credit standards over the next six months

Change in Credit Standards for Commercial & Industrial Loans

- Tightened Considerably
- Tightened Somewhat
- Remained Unchanged
- Eased Somewhat
- Eased Considerably

Compared to previous month
Over the next 6 months
Banks in the region are reportedly tightening conditions most in real estate because of shifts in the economic outlook.

Which industries influence your expectations?

What are the key drivers of your expectations for demand?

Source: FRBKC
Looking ahead

• Curtailing inflation pressures will require slowing growth in the prices of services, which are historically less volatile and larger contributors to overall inflation

• Tighter financial conditions are resulting in slower demand growth and, as a result, declining business investment activity

• The Federal Reserve has stated that a sustained stance of restrictive policy is likely to be appropriate to restore price stability

• Recent financial volatility and associated uncertainty are substantial downside risks to the outlook
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